
GENERAL FUND FINANCING

County general fund operations are financed with four major types of financing sources: departmental revenue, Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue.

Departmental revenue includes fees, service charges, and state and federal support for programs such as welfare, health care, and behavioral health. Proposition 172 revenue is restricted and is used solely for financing the Sheriff, District Attorney, and Probation departments. Realignment revenue is also restricted and used in financing mental health, social services and health programs within the County.

The balance of departmental costs not funded by departmental revenue, Proposition 172 revenue, and/or Realignment revenue is considered local cost. Local cost is funded by countywide discretionary revenue, which is primarily property tax revenue.

Any countywide discretionary revenue not distributed to departments via local cost is placed in contingencies. Every year the County of San Bernardino has set aside a prudent dollar amount in contingencies and reserves for two purposes. One is to ensure that the county can accommodate unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. The second purpose is to be proactive and set aside funds to meet future known obligations or to build a reserve for large capital projects.

The following pages describe in more detail Proposition 172 revenue, Realignment revenue, and countywide discretionary revenue that assists in financing general fund departments. In addition, detailed information is included on the contributions and uses of county general fund contingencies and reserves for 2006-07 and the proposed contributions and uses of general fund contingencies and reserves for 2007-08.

PROPOSITION 172

Proposition 172 (Prop 172), which became effective January 1, 1994, placed a one-half percent sales tax rate in the state's constitution and required that revenue from the additional one-half percent sales tax be used only for local public safety activities, which include but are not limited to sheriff, police, fire protection, county district attorney, and county corrections. Funding from Prop 172 enabled counties and cities to substantially offset the public safety impacts of property tax losses resulting from the state property tax shift to the Educational Revenue Augmentation Fund (ERAF).

The one-half percent sales tax imposed by Prop 172 is collected by the state and apportioned to each county based on its proportionate share of statewide taxable sales. Pursuant to Government Code 30055, of the total Prop 172 revenue allocated to San Bernardino County, 5% is distributed to cities affected by the property tax shift and 95% remains within the county.

On August 22, 1995, the County of San Bernardino Board of Supervisors approved the recommendation that defined the following departments as the public safety services designated to receive the county's 95% share of Prop 172 revenue, consistent with Government Code Section 30052 and authorized the Auditor/Controller to deposit the county's portion of the Prop 172 revenue as follows:

➤	Sheriff	70.0%
➤	District Attorney	17.5%
➤	Probation	12.5%

Prop 172 revenue currently presents a significant funding source for the Sheriff, District Attorney, and Probation Departments. Each year, as part of the budget development process, projections of Prop 172 growth are developed based on staff analysis of revenue trends and forecasts provided by outside economists.

Growth in Prop 172 revenue is used first to fund mandated cost increases in these departments, including MOU adjustments, retirement, worker's compensation and insurance. In most years, the mandated cost increases consume the vast majority of Prop 172 revenue growth and all Prop 172 revenue is distributed to the designated departments.

In some budget years, Prop 172 revenue exceeds budgeted amounts and is considered excess Prop 172 revenue. All excess Prop 172 revenue is set aside in a restricted general fund by department and is available to meet other high priority needs as recommended by the department and approved by the Board of Supervisors.

On February 13, 2007, the Board of Supervisors approved a policy which requires the county to maintain an appropriation for contingency for Prop 172 funds targeted at no less than 10% of the current year's budgeted Prop 172 revenue. This 10% contingency was created to ensure funding for these public safety departments should the county experience Prop 172 revenue shortfalls in the future. These contingencies will be maintained in the respective department's restricted general fund.

Currently, the Sheriff Department does not have sufficient Prop 172 revenues to fund their mandated costs increases and their 10% targeted contingency amount of approximately \$11.7 million. The County Administrative Office has developed a five-year plan to ensure that the 10% contingency is reached for the Sheriff Department and in 2007-08, the Sheriff Department will set-aside \$1.1 million of their available excess Prop 172 revenue into their restricted general fund as part of the five-year plan. The District Attorney and Probation Department have accumulated the necessary funds to meet the 10% contingency requirement.



The chart below illustrates the anticipated beginning and ending fund balance of this restricted general fund for 2007-08 as well as projected revenue, including interest, and planned expenditures from this fund.

	Beginning Fund Balance (AAG)	Budgeted Revenue	Budgeted Departmental Usage	Estimated Ending Fund Balance (AAG)
Sheriff	6,600,000	117,950,000	116,150,000	8,400,000
District Attorney	3,000,000	29,487,500	29,145,352	3,342,148
Probation	3,400,000	21,062,500	20,937,500	3,525,000
Total	13,000,000	168,500,000 *	166,232,852	15,267,148

* Includes estimated interest in the amount of \$1,000,000

Prop 172 budgeted revenue and projected interest for all three departments in 2007-08 is \$168.5 million (\$167.5 million in Prop. 172 receipts and \$1.0 million in interest revenue). The applicable department's budgeted appropriation is \$166.2 million due to funding mandated costs mentioned above.

Included in the District Attorney's Office departmental usage of \$29,145,352, is approximately \$0.5 million which was mistakenly carried forward from their 2006-07 budget. The County Administrative Office, in coordination with the District Attorney's Office, will resolve the aforementioned issue through final budget adjustments.



REALIGNMENT

In 1991 the state shifted responsibility for a number of mental health, social services, and health programs to counties. This shift, known as Realignment, resulted in the creation of two dedicated funding streams to pay for the shifted services: a ½ cent Sales Tax and 24.33% of Vehicle License Fee (VLF) revenues made available by a change in the depreciation schedule for vehicles. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the Vehicle License Fee was reduced from 2.0% of the market value of a vehicle to .65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%. This change did not result in increased VLF revenues to Realignment, but simply reflects the same funding amount expressed as a percentage of the reduced revenue collected. Each of the three service areas identified was required to have their own separate accounts established and each of those service areas receive a different share of statewide Realignment revenues.

Within the mental health area, the programs for which the county is now responsible are: community-based mental health programs, State Hospital services for county patients, and Institutions for Mental Disease. Within the social services area, the programs for which the county is now responsible are: the county revenue stabilization program and the county justice subvention program. Within the health area, the programs for which the county is now responsible are: AB8 county health services, local health services, medically indigent services, and the county medical services program.

In addition to these program responsibility shifts, a number of programs had changes made to their cost sharing ratios. Below are the programs involved in the cost sharing ratio changes (numbers are shown in percentages in the order of state/county shares of cost). For example, prior to Realignment Foster Care costs were funded by 95% state resources and 5% county resources. Now Foster Care is funded by 40% state resources and 60% county resources, which is a significant impact to the county.

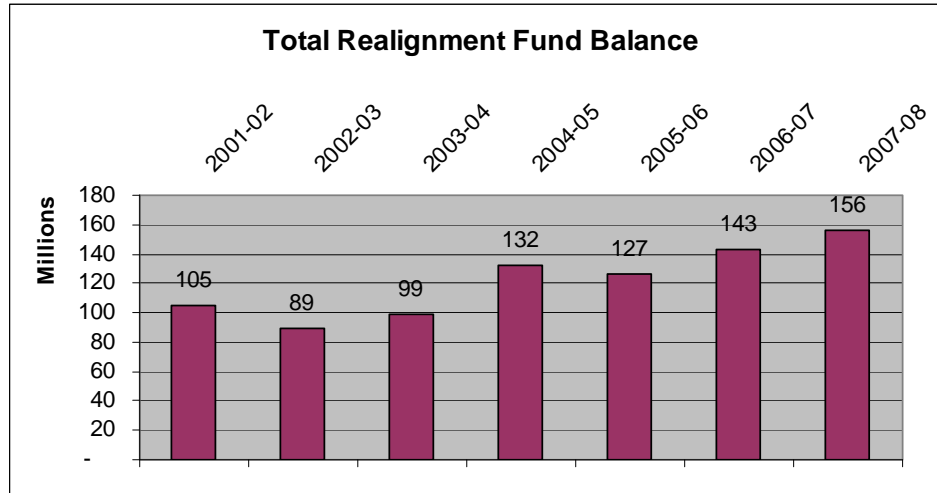
	From State/County	To State/County
Social Services programs:		
Foster Care	95/5	40/60
Child Welfare Services	76/24	70/30
Adoption Assistance	100/0	75/25
CalWORKs	89/11	95/5
County Services Block Grant	84/16	70/30
Greater Avenues for Independence	100/0	70/30
Social Services administration	50/50	70/30
In Home Supportive Services (IHSS)	97/3	65/35
Health programs:		
California Children's Services	75/25	50/50

The Realignment program has some flaws in its design that adversely impact County of San Bernardino revenues. First, is San Bernardino's status as an "under equity county," meaning that the county receives a lesser share of revenue relative to other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred just prior to the adoption of Realignment. San Bernardino County was under equity in those programs. Realignment did attempt to address the inequity issue, but the effort fell short. The county continues to be under equity at this time and barring any legislative action the amount of inequity will increase over time. As growth occurs in the revenue streams, that incremental new funding is distributed on existing sharing arrangements between the counties. The counties that are already over equity get a higher percentage of the new revenue while those that are under equity get less.



In addition to the under equity issue is the fact that the demand for the services the county is providing and the revenue streams funding them are both sensitive to the economy. When the economy does poorly, demand for services is high, but revenues under perform. When the economy is doing well, demand for services is reduced, sales taxes and vehicle license fees revenues are high, and growth in these funding streams is experienced. However, Social Services has priority claim on any sales tax growth received. If the growth is sufficient to cover the increasing Social Services caseload costs, then anything remaining is distributed to the Mental Health and Health realignment funds.

The graph below shows the history of fund balance for all Realignment funds.



Fund balances increased significantly from 2003-04 to 2004-05. The increased fund balance in 2004-05 was driven by lower than expected expenditures in Behavioral Health, Probation, ARMC, and Foster Care. The decrease in 2005-06 is the result of a one-time transfer of funds to ARMC for the remodel of the 6th floor of the hospital. These additional expenditures were slightly offset by significant sales tax growth revenue of \$15.3 million, or 21%, within the Social Services Fund for the year ending June 30, 2006.

Budget History for All Realignment Funds					DIFFERENCE BETWEEN ESTIMATE & ADOPTED BUDGET	DIFFERENCE BETWEEN ACTUAL & ADOPTED BUDGET
	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08		
Beginning Fund Balance	132,196,582	117,711,163	126,723,987	143,074,796	9,012,824	9,012,824
Revenue	211,051,999	212,247,973	215,250,272	224,888,389	3,002,299	3,002,299
Department Usage	216,524,594	209,101,739	198,899,463	212,215,753	(10,202,276)	(10,202,276)
Ending Fund Balance	126,723,987	120,857,397	143,074,796	155,747,432	22,217,399	22,217,399
Change in Fund Balance	(5,472,595)	3,146,234	16,350,809	12,672,636	13,204,575	13,204,575

The chart above shows the impact of the unexpected revenue growth from sales tax in the 2005-06 fiscal year. In 2005-06 actual revenue received exceeds the budgeted revenue amount by \$16.2 million. The impact of this unexpected growth continues into the following year as this growth then becomes part of the sales tax revenue base anticipated to be received for the period ending June 30, 2007.

This unexpected sales tax growth is reflected in the estimated beginning fund balance for 2006-07 which is \$9.0 million higher than budgeted. In addition, departmental savings of another \$10.2 million in 2006-07, results in an estimated increase to ending fund balance of \$22.2 million for the period ending June 30, 2007.



It is important to note however that sales tax for 2006-07 is again beginning to show a lag, and minimal growth is expected for the year.

For the 2007-08 budget, revenues of \$224.9 million include overall projected sales tax and vehicle license fees growth of 5% and 4%, respectively. Slightly offsetting this growth are proposed increases in departmental usage of \$3.1 million, resulting in a net increase to fund balance of \$12.7 million.

SUMMARY OF REALIGNMENT BUDGET UNITS FOR 2007-08

	Estimated Beginning Fund Balance	Budgeted Revenue	Budgeted Departmental Usage	Budgeted 10% Transfers	Estimated Ending Fund Balance	Estimated Change in Fund Balance
Mental Health	46,423,790	62,142,263	70,584,965	-	37,981,088	(8,442,702)
Social Services	62,237,248	99,912,421	73,496,500	-	88,653,169	26,415,921
Health	34,413,758	62,833,705	68,134,288	-	29,113,175	(5,300,583)
Total	143,074,796	224,888,389	212,215,753	-	155,747,432	12,672,636

The Realignment budgets do not directly spend funds or provide service. They are strictly financing budgets with the actual expenditures occurring within the operating budget units of the departments that receive Realignment revenue.

The Realignment legislation does allow for some flexibility in usage of funds at the county level. Upon action by the Board of Supervisors, a county can transfer 10% of a given years revenue from one fund to another. San Bernardino County has used the provision repeatedly over the years to help support either the health or social services programs. The County did not do a 10% transfer in 2006-07 and is not budgeting one for 2007-08. However, in the event that such transfer is needed, Board of Supervisors approval is required.

The next three pages contain the breakdown of the three individual Realignment funds.



Mental Health

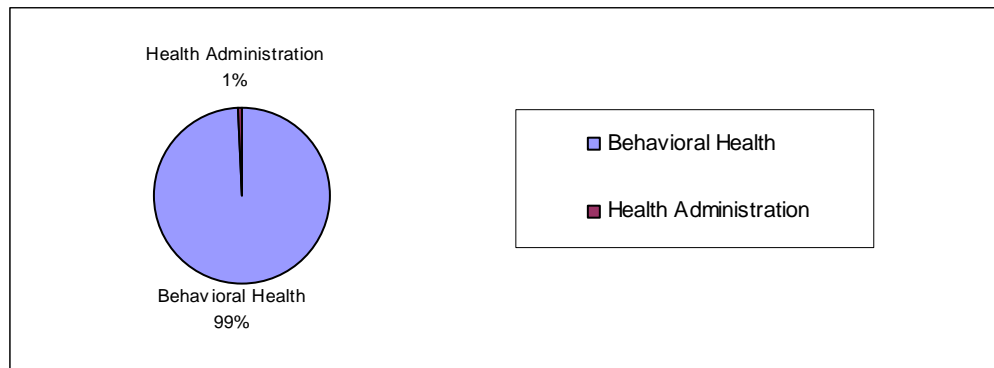
	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Beginning Fund Balance	45,032,717	51,360,727	51,362,385	46,423,790
Revenue	59,604,493	61,977,359	60,812,681	62,142,263
Department Usage	53,274,825	67,673,293	65,751,276	70,584,965
10% Transfers	-	-	-	-
Ending Fund Balance	51,362,385	45,664,793	46,423,790	37,981,088
Change in Fund Balance	6,329,668	(5,695,934)	(4,938,595)	(8,442,702)

Mental Health realignment revenue is currently composed of 59% sales tax and 41% vehicle license fees. 2005-06 reflects the first time since 2000-01 that sales tax growth was received. However, this growth is not expected to continue for 2006-07 as sales tax is expected to experience the same lag prior to the unexpected growth of 2005-06.

For 2006-07, revenue is estimated at slightly lower than budget due to slowing sales tax growth. This is offset by anticipated expenditure savings, resulting in a lower use of fund balance. For 2007-08 the Mental Health fund is budgeted to spend \$8.4 million of fund balance. This 48% increase in use is due primarily to delays in receipt of Title XIX EPSDT funding within the Behavioral Health budget unit. These delays have amounted to roughly \$11.0 million in payments yet to be received, which when rectified, is expected to result in less than budgeted fund balance use at end of the year. Despite this, department usage continues to increase, primarily the result of uncompensated cost increases from MOU negotiations. Coupled with limited or no growth expected in Mental Health realignment revenue due to Social Services continued draws of all sales tax revenue growth, balance within this fund is expected to show continued decline. As such, the Department of Behavioral Health and the County Administrative Office will need to begin the process of revising the Department's five-year plan to ensure that ongoing departmental usage and ongoing revenues stay in line.

Breakdown of Department Usage of Mental Health Realignment

	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Behavioral Health	52,618,673	67,252,313	65,277,815	70,019,971
Health Administration	656,152	420,980	473,461	564,994
Total Department Usage	53,274,825	67,673,293	65,751,276	70,584,965



Social Services

	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Beginning Fund Balance	14,519,257	26,566,979	35,822,945	62,237,248
Revenue	90,884,675	87,826,701	92,793,637	99,912,421
Department Usage	69,580,987	76,433,144	66,379,334	73,496,500
10% Transfers	-	-	-	-
Ending Fund Balance	<u>35,822,945</u>	<u>37,960,536</u>	<u>62,237,248</u>	<u>88,653,169</u>
Change in Fund Balance	21,303,688	11,393,557	26,414,303	26,415,921

Social Services realignment revenue is composed primarily of sales tax. The split is currently 96% sales tax and 4% vehicle license fees. In a drastic turnaround from prior years, sales tax coming in to Social Services realignment grew dramatically in 2005-06. While this is good news, the growth has been insufficient to make up for prior years' shortfalls. Statewide, sales tax collections even in this very good year were \$169.2 million short of what was necessary to fund caseload growth within the mandated Social Services programs.

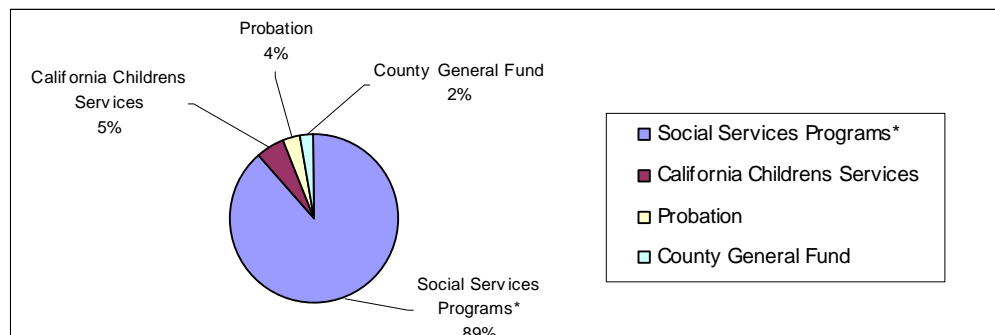
The unexpected growth of 2005-06 was so significant that for the first time since 2000-01, sales tax growth could also be received within the Mental Health and Health realignment funds. Actual sales tax growth for 2005-06 within the Social Services fund was \$15.4 million, which is then reflected as part of the base for 2006-07, resulting in estimated revenue of \$92.8 million, an increase of \$5.0 million over budget. This increase in revenue, coupled with anticipated expenditure savings is reflected in the \$24.3 million anticipated increase in Ending Fund Balance. It should be noted however, that the increases in revenue are only the result of the higher base, and that actual sales tax collections for 2006-07 are expected to again be insufficient to cover caseload cost increases.

For the 2007-08 budget ongoing expense and ongoing revenue shows a surplus of \$26.4 million; however, this is based on continued assumed sales tax growth that may begin to feel pressure should the economy begin to slow.

Breakdown of Department Usage of Social Services Realignment

	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Social Services Programs*	62,050,426	68,580,269	58,416,459	65,012,683
California Childrens Services	3,030,931	3,353,245	3,503,245	3,984,187
Probation	2,700,630	2,700,630	2,660,630	2,700,630
County General Fund	<u>1,799,000</u>	<u>1,799,000</u>	<u>1,799,000</u>	<u>1,799,000</u>
Total Department Usage	69,580,987	76,433,144	66,379,334	73,496,500

* Soc. Svcs. Programs include: IHSS, Foster Care, Seriously Emotionally Disturbed, and Administrative Claim Matches



Health

	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Beginning Fund Balance	72,644,608	39,783,457	39,538,657	34,413,758
Revenue	60,562,831	62,443,913	61,643,954	62,833,705
Department Usage	93,668,782	64,995,302	66,768,853	68,134,288
10% Transfers	-	-	-	-
Ending Fund Balance	39,538,657	37,232,068	34,413,758	29,113,175
Change in Fund Balance	(33,105,951)	(2,551,389)	(5,124,899)	(5,300,583)

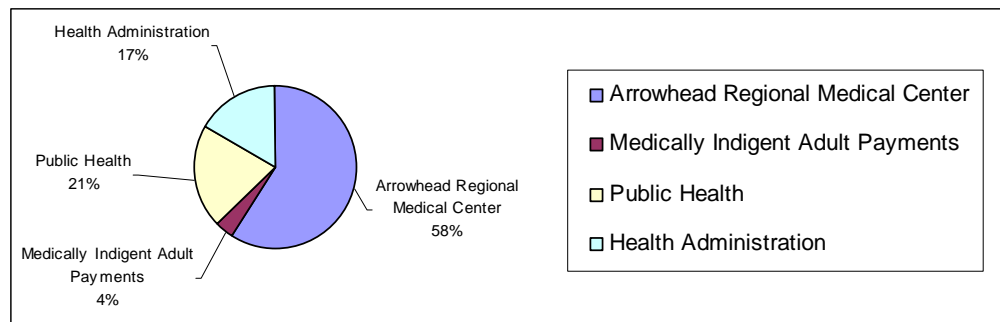
As in the Mental Health realignment revenues, Health funding experienced sales tax growth for the first time since 2000-01. However, the impact is not as significant given that Health is primarily funded with vehicle license fees at 73% with the remaining 27% coming from sales tax.

In 2006-07, expected decreases in realignment revenue coupled with increases in department expenditures is reflected in the nearly doubled use of fund balance for the period ending June 30, 2007. Transfers for one-time projects being conducted by the Arrowhead Regional Medical Center comprise nearly \$3.0 million of the increase in expected departmental usage. Additionally, shortfalls within the ARMC budget unit, mainly resulting from lack of cost containment over the last few years, failure to budget and plan for necessary equipment replacement, and increases in contracted physician expenses, continue to be of concern as realignment funds are consequently used to mitigate these deficits.

The 2007-08 proposed budget reflects the use of \$5.3 million in fund balance. This is again primarily the result of additional transfers in the amount of \$5.2 million to fund one-time projects for ARMC reflected in the increased department usage, coupled with limited sales tax growth. Health Administration usage is reduced to reflect decreased net debt service payments for ARMC. There is no budgeted increase in departmental usage for Public Health.

Breakdown of Department Usage of Health Realignment

	ACTUAL 2005-06	BUDGET 2006-07	ESTIMATE 2006-07	PROPOSED 2007-08
Arrowhead Regional Medical Center	66,733,462	36,632,500	42,382,099	40,026,099
Medically Indigent Adult Payments	2,550,000	2,550,000	2,550,000	2,550,000
Public Health	11,008,999	14,164,292	14,079,430	14,164,292
Health Administration	13,376,321	11,648,510	7,757,324	11,393,897
Total Department Usage	93,668,782	64,995,302	66,768,853	68,134,288



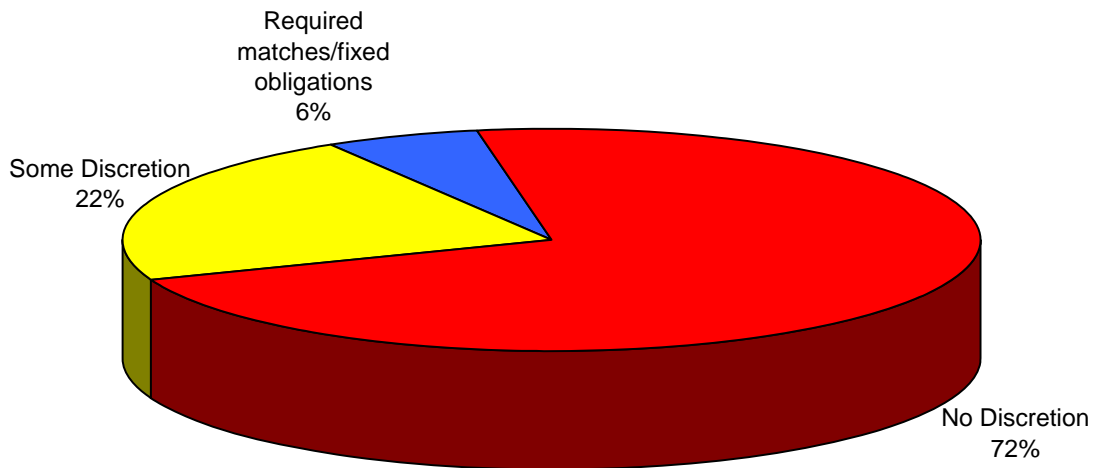
Budgetary Note: Financial information presented in this Realignment budget section is consistent with state reporting requirements for the Realignment funds. The state's reporting requirements are not consistent with the county's implementation of GASB 34 as it relates to revenue accrual. As such, within the county's accounting system, an adjustment will be made to show the correct revenues in accordance with the county's accrual procedures. This is a revenue timing issue only as a result of delays by the state in distributing sales tax growth revenue.



COUNTYWIDE DISCRETIONARY REVENUE

The entire general fund budget is \$2.4 billion, however, the Board of Supervisors has no discretion on \$1.7 billion of this amount as seen in this pie chart.

2007-08 Proposed Budget General Fund Spending

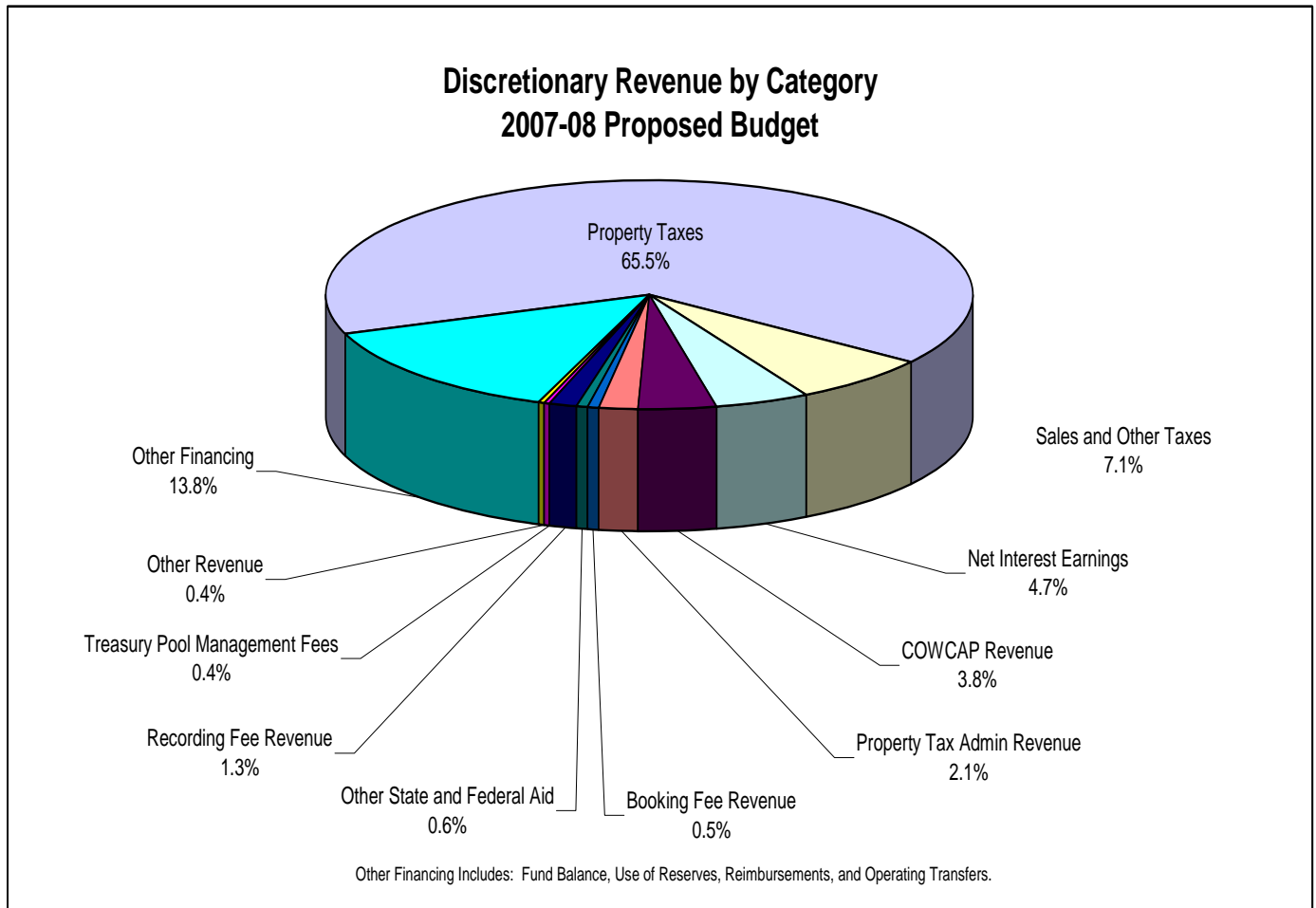


SPENDING WHERE THE BOARD HAS NO DISCRETION. INCLUDES:	1,701,215,776
Welfare costs reimbursed by state and federal monies (\$745.6 million)	
Other program costs funded by program revenues such as user fees (\$955.6 million)	
REQUIRED HEALTH AND WELFARE MATCHES AND OTHER FIXED OBLIGATIONS:	140,734,394
SPENDING WHERE THE BOARD HAS SOME DISCRETION. INCLUDES:	523,328,435
Reserve / Contingencies Contributions (\$106.6 million)	
Law and justice program costs funded by local revenues (\$263.4 million)	
All other program costs funded by local revenues (\$153.4 million)	
TOTAL:	\$2,365,278,605

The Board of Supervisors has authority over the countywide discretionary revenue, which totals \$664,062,829. This countywide discretionary revenue is first obligated to pay for the required health and welfare matches and other fixed obligations, which total \$140,734,394. The remaining amount of \$523,328,435 is available for the Board's discretion and finances departmental budgets' local cost.



Shown below are the sources of the countywide discretionary revenue for 2007-08, which total \$664,062,829:



COUNTYWIDE DISCRETIONARY REVENUE WHICH PAY FOR GENERAL FUND LOCAL COST

	2005-06 Final Budget	2006-07 Final Budget	2006-07 Estimate	2007-08 Proposed Budget
Countywide Discretionary Revenue				
Property Taxes:				
Current Secured, Unsecured, Unitary	139,341,353	186,170,860	188,984,627	206,738,207
VLF/Property Tax Swap	148,442,703	187,409,286	185,845,127	208,146,542
Supplemental Property Tax	8,746,613	14,000,000	29,265,086	14,000,000
Penalty on Current Taxes	1,938,095	1,938,095	2,272,832	2,272,832
Prior Property Taxes, Penalties and Interest	7,222,648	3,806,646	3,860,659	3,860,659
Total Property Taxes	305,691,412	393,324,887	410,228,331	435,018,240
Sales and Other Taxes:				
Sales and Use Tax	18,758,333	23,075,676	25,383,011	22,879,354
Property Transfer Tax	14,948,345	19,936,370	15,000,000	15,000,000
Franchise Fees	6,045,934	6,715,000	6,715,000	7,120,050
Hotel/Motel Tax	1,176,978	1,176,978	1,200,000	1,200,000
Other Taxes	700,000	700,000	750,000	750,000
Total Sales and Other Taxes	41,629,590	51,604,024	49,048,011	46,949,404
Net Interest Earnings	21,872,000	23,154,000	33,413,414	31,000,000
COWCAP Revenue	20,228,548	20,739,704	20,548,259	25,196,750
Property Tax Admin Revenue	10,219,145	12,773,384	13,800,000	13,800,000
Recording Fee Revenue	-	11,167,902	8,616,493	8,616,493
Other State and Federal Aid	3,593,326	3,647,156	6,496,169	3,660,738
Booking Fee Revenue	-	2,500,000	3,000,000	3,000,000
Treasury Pool Management Fees	-	2,219,195	2,219,195	2,503,298
Other Revenue	2,430,000	3,430,000	3,697,176	2,430,000
Total Countywide Discretionary Revenue	405,664,021	524,560,252	551,067,048	572,174,923
Other Financing Sources				
Fund Balance, beginning	121,637,030	100,698,815	100,698,815	72,782,500
Reimbursements	583,586	583,586	586,586	-
Use of Reserves	2,253,702	6,063,708	12,781,313	-
Operating Transfers	24,344,825	32,116,449	32,116,449	19,105,406
Total Other Financing Sources	148,819,143	139,462,558	146,183,163	91,887,906
Total Countywide Discretionary Revenue and Other Financing Sources	554,483,164	664,022,810	697,250,211	664,062,829

For 2007-08 general fund financing includes Countywide Discretionary Revenues of \$572.2 million and Other Financing Sources of \$91.9 million.

Countywide Discretionary Revenues

Secured Property Tax

Secured Property Tax Revenues make up \$186.2 million of the \$206.7 million 2007-08 "Current Secured, Unsecured, Unitary" budgeted revenue number. This budgeted amount is projected to grow 11.0% over current year end estimates based on growth estimates provided by the County Assessor's office, and estimates of a local economist.



The table below compares the increase in secured assessed valuation for the last six years to the increase in secured property tax revenues of the general fund (adjusted for one-time revenue changes such as ERAF III).

Fiscal Year	Countywide Locally Assessed Secured AV	Percent Increase	County General Fund Secured Revenue - Adjusted	Percent Increase
2000-01	73,672,579,140		90,265,895	
2001-02	78,831,564,858	7.00%	96,419,313	6.82%
2002-03	85,194,704,924	8.07%	103,724,492	7.58%
2003-04	92,745,938,042	8.86%	114,005,166	9.91%
2004-05	103,488,544,441	11.58%	127,110,535	11.50%
2005-06	118,871,872,729	14.86%	143,559,894	12.94%
2006-07	141,392,463,582	18.95%		

As is evident in the table, county general fund revenues do not usually increase at the same rate as secured assessed valuation. This is not due to delinquent tax payments. The County participates in the Teeter method of property tax allocation for secured property tax revenues. Therefore the County, and all other agencies participating in the Teeter program, receives 100% of the secured property tax revenue to which they are entitled, regardless of payment status. Instead, the mismatch between assessed valuation growth and revenue growth can be caused in part by assessed valuations increasing at a different rate in cities than in the unincorporated areas of the County (where the County gets a larger share of the property tax revenue). Other reasons for this mismatch include:

Redevelopment Agency Allocations:

When a redevelopment project area is created, future increases in property tax revenues are allocated to the Redevelopment Agency, instead of being apportioned through the normal allocation process to the County, Cities, Schools and Special Districts. This results in a lowering of the County's percentage share of the total revenues generated by the secured property in the County. In some instances, this reduction in property tax revenues is partially offset by a pass through of a certain amount of these revenues back from the RDA to the County (and the other affected entities).

Incorporations/Annexations:

When a new city is created in the County, or when an existing city annexes additional land into its boundaries, the City takes on certain responsibilities for that geographic area that were previously the responsibility of the County and Special Districts. To fund this shift in responsibilities, the County, and any affected Special Districts, will have their share of property tax revenues reduced in favor of the City.

VLF/Property Tax Swap

Historically, approximately three-fourths of Vehicle License Fee (VLF) revenue was allocated to cities and counties as general purpose financing. Beginning in Fiscal Year 1998-99, the State reduced the VLF payment required from vehicle owners. However, the State made up the revenue impact of the VLF rate reductions with State general fund revenue (the 'VLF Backfill').

The VLF Backfill was eliminated in the 2004-05 State budget. In that year the VLF Backfill to cities and counties was permanently replaced with an equivalent increase in property tax revenues (VLF/Property Tax Swap revenues). This increase was funded by decreases in property tax revenues allocated to schools and community colleges.

For 2004-05 the State established the base amount of the VLF/Property Tax Swap. The base is equal to the amount of VLF backfill that the counties and cities would have received in 2004-05, calculated using actual VLF receipt amounts for 2004-05. For years beginning in 2005-06, the VLF/Property Tax Swap amount is calculated using the prior year VLF/Property Tax Swap amount increased by a rate equal to the growth in assessed

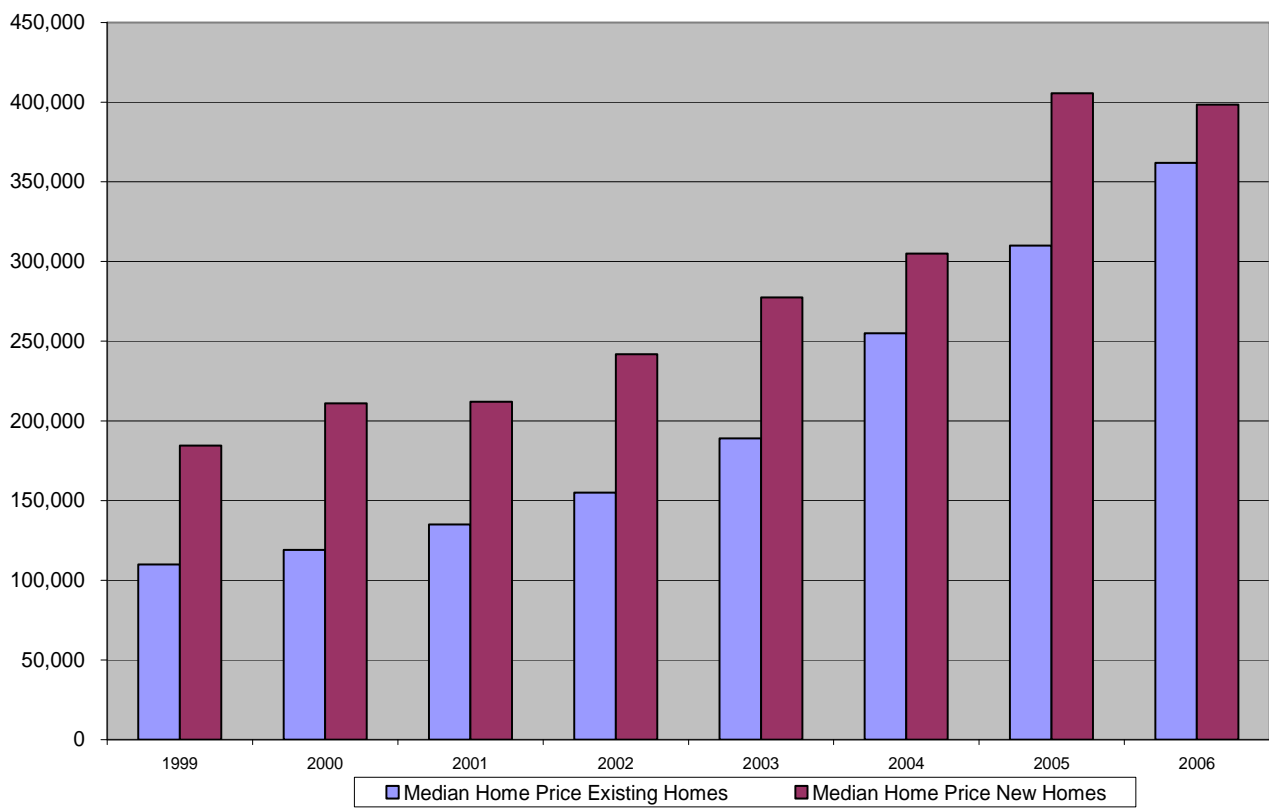


valuation. This growth rate includes both secured and unsecured assessed valuation, but excludes the growth rate of unitary valuations. For 2007-08 it is projected that this revenue will increase 12% over current year-end estimates. This is slightly higher than the estimate of secured property tax growth as the VLF/Property Tax Swap Revenue is not affected by Redevelopment Agency allocations, incorporations, or annexations, as is true with secured property taxes.

Supplemental Property Tax

Supplemental Property Tax payments are required from property owners when there is an increase in the assessed valuation of their property after the property tax bill for that year has been issued. Generally there are two types of events that will require a supplemental property tax payment: a change in ownership or the completion of new construction. As a result, when property values have been increasing and sales activity is high, there will be an increase in the number and dollar amount of supplemental property tax bills, which will result in increased supplemental property tax revenues to the County. The opposite is true when home prices and sales volume is declining. In fact, when the sales price of a property is lower than the current assessed value of the property, a refund may be due to the property owner.

In recent years the County has been experiencing dramatic increases in housing sales and housing prices. The following chart illustrates the dramatic rise in housing prices for both new and existing homes.



Sales of new and existing homes rose dramatically through calendar year 2005. The combination of rising home prices and rising sales volume contributed to a dramatic rise in supplemental property tax revenues to the general fund as shown in the schedule below.

Fiscal Year	Supplemental Property Tax Revenues	Percent Increase/ (Decrease)
1998-99	1,009,170	
1999-00	1,446,766	43.36%
2000-01	2,368,978	63.74%
2001-02	2,918,443	23.19%
2002-03	4,937,268	69.17%
2003-04	6,102,778	23.61%
2004-05	13,219,499	116.61%
2005-06	25,049,987	89.49%

In 2006 the housing market began to slow down. Quarterly sales volume, which was 11,991 units in the fourth quarter of 2005, decreased by 28.4% to 8,581 units in the third quarter of 2006. In addition, although median prices of existing homes continued to rise through the third quarter of 2006, median new home prices decreased 1.7% for this same period (as compared to a 33% increase in 2005). Given the change in the housing market, the County is anticipating a reduction in supplemental property tax revenue. An offsetting factor is the impact of the VLF/Property Tax Shift on supplemental property tax revenues. Because of the nature of the VLF/Property Tax Swap, the Education Revenue Augmentation Fund (ERAF) no longer receives supplemental tax revenues. Supplemental tax revenues that would have gone to ERAF are instead contributed to counties and cities.

The County anticipated the housing slowdown in the 2006-07 final budget by budgeting a conservative \$14 million for supplemental property taxes. Although the current year end estimate is approximately \$29 million, the proposed budget for 2007-08 remains at \$14 million. This budgeted amount is the current estimate of the sustainable level of this revenue for the near future.

Sales and Use Tax

County discretionary revenues include 1% of the 7.75% sales tax rate charged on purchases made in the unincorporated areas of the County. In recent years, due to the strong housing market and resulting population increase, County discretionary sales tax revenues have increased significantly.

When preparing the annual budget, the County projects future sales tax revenues based on data provided by a local economist. For 2007-08 the economist has projected total sales tax revenues in the unincorporated area of \$30.2 million, which reflects an increase of 9.68%. The County has budgeted \$22.9 million. The major reasons for this difference include:

Sales Tax Sharing Agreement with the City of Redlands

In August of 2003, the County entered into a sales tax sharing agreement with the City of Redlands. Under the terms of this agreement, the City of Redlands provides government services to an unincorporated area of the County, and in return the County pays the city a percentage of the sales tax revenue generated in that geographical area. This geographic area has and continues to add, numerous retail establishments and generates a considerable amount of sales tax revenue. Under the terms of the sales tax sharing agreement, the County currently pays the City of Redlands 90% of the County's discretionary sales tax revenue generated in this area.

Potential Annexations and Incorporations

Based on recent estimates, approximately 56% of the County's discretionary sales tax revenue is generated in the unincorporated portion of the spheres of influence of the 24 cities that are within the county's boundaries. A sphere of influence is a 'planning boundary within which a city or district is expected to grow



into over time'. Therefore, the areas within these spheres are likely to be annexed, and once annexed, the discretionary sales tax revenue generated in that area will go to the city instead of the County. The County would also lose sales tax revenues if a community in the unincorporated area of the County decided to create a new city (incorporate).

In the 2006-07 final budget, the County budgeted sales tax revenues of \$23.1 million and currently anticipates receipt of \$25.4 million for the fiscal year. The 2007-08 proposed budget amount of \$22.9 million includes a \$3.8 million reduction in the County's sales tax base due to a major annexation by the City of Fontana.

Property Transfer Tax

The Property Transfer Tax is collected when any lands, tenements, or other realty sold within the County is granted, assigned, transferred, or otherwise conveyed to or vested in the purchaser. The tax is imposed when the value of the property exceeds \$100. The tax rate is \$ 0.55 for each \$500 of property value. For sales in the unincorporated areas of the County, the County receives 100% of the tax. For sales in cities, the County receives 50% of the tax. This revenue has increased dramatically over the last 5 years due to the high volume of housing sales and increasing housing prices. As shown in the table below this revenue has increased an average of 29.9% over the last five years.

Fiscal Year	Property Transfer Tax Revenue	Percent Increase/ (Decrease)	Five Year Average
2000-01	4,904,282		
2001-02	5,938,919	21.10%	
2002-03	7,752,989	30.55%	
2003-04	11,578,232	49.34%	
2004-05	15,184,960	31.15%	
2005-06	17,855,238	17.59%	29.94%

This revenue stream is dependent on the combination of sales prices and the number of sales transactions, and is expected to decrease in reaction to the decline in the housing market. As a result, receipts for 2006-07 are expected to total \$15.0 million, which is \$5.0 million less than budgeted. The 2007-08 proposed budget also estimates revenues of \$15.0 million.

Net Interest Earnings

Net interest earnings for 2007-08 are projected at \$31.0 million, which is \$2.4 million less than the current year-end estimate of \$33.4 million. Healthy, stable cash balances contribute to the relatively flat projection for this revenue source.

COWCAP (County-Wide Cost Allocation Plan) Revenue

COWCAP revenue is reimbursement for overhead/indirect costs incurred by the general fund. Reimbursements are received from various state and federal grant programs (that permit such reimbursement) and fee supported general fund departments and taxing entities such as the library and Board-governed special districts. The budgeted COWCAP Revenue amount reflects the recovered allowable costs included in the 2007-08 countywide cost allocation plan (COWCAP) published by the Auditor/Controller.

Property Tax Admin Revenue

Property Tax Administration revenue is expected to grow slightly from prior year budget. Property Tax Administration revenue consists of:

- SB 813 cost reimbursement, which represents allowable charges for administration and operation of the supplemental property tax program. This reimbursement is tied directly to the performance of supplemental property tax revenue.
- The property tax administrative fee, which the legislature provided to allow counties to recover the cost of the property assessment and tax collection process from certain other local jurisdictions. This revenue is tied directly to the cost of that collection effort.



Recording Fee Revenue

The County Recorder's Office collects certain fees for the official recording of documents. In previous fiscal years, this revenue was budgeted in the Auditor/Controller-Recorder's budget unit. Due to the unpredictable nature of the recording fee revenue and the County Administrative Office's concern for stabilization of departmental financing, the Board approved placing the recording fee revenue in the countywide discretionary revenue.

State and Federal Aid

State and Federal aid consists of a payment from the welfare realignment trust fund, which replaced the state revenue stabilization program, and SB90 reimbursements from the state. It also includes revenues received from the Federal government's Payment in Lieu of Taxes (PILT) program. Under current law, local governments are compensated through various programs for losses to their tax bases due to the presence of most federally owned land. PILT for the county in 2007-08 is expected to grow slightly over the 2006-07 budgeted amount. The 2006-07 year end estimate in State and Federal Aid includes \$2.9 million in prior year SB90 reimbursements from the State.

Booking Fee Revenue

State law provides the Board of Supervisors with the authority to assess booking fees. In 2006-07, the maximum fee imposed by counties continued to be limited to one-half of actual administrative costs. New legislation (AB 1805) for 2007-08 replaces this methodology with the creation of a Local Detention Facility Revenue Account, to be funded by a state allocation and used exclusively for the construction or operation of jails. In addition, a Jail Access Fee is allowed for specified non-felony offenses when a jurisdiction exceeds a three-year average number of bookings. The ability to charge booking fees is retained if the state does not appropriate funding under AB 1805; however, \$35 million is included in the Governor's proposed state budget. For 2007-08, San Bernardino County's share of the proposed allocation will replace booking fee revenue.

Treasury Pool Management Fees

Beginning in 2006-07, discretionary revenue includes cost reimbursement for the management of the County's investment pool, which is projected to total \$2.5 million in 2007-08. In prior fiscal years, this revenue was budgeted in the Treasurer/Tax Collector's budget unit.

Other Revenue

Other revenue includes overhead charges recovered through city law enforcement contracts with the Sheriff's Department, voided warrants issued by the county, projected transfers of unclaimed property tax refunds to the general fund, the county share of vehicle code violation revenue, and other miscellaneous revenues.

Other Financing Sources**Fund Balance and Reimbursements**

The 2006-07 year-end fund balance for the general fund is estimated at \$72.8 million.

Use of Reserves

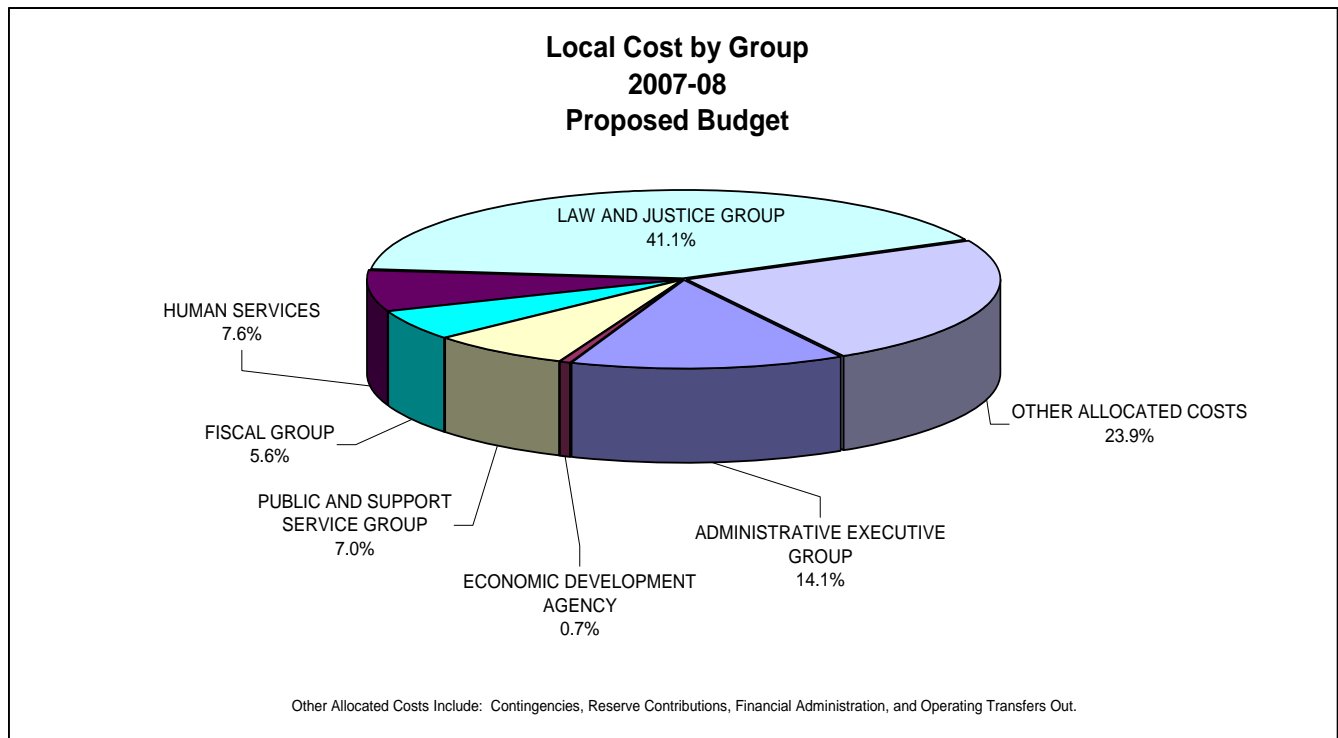
The 2007-08 proposed budget does not anticipate the use of any general fund reserves.

Operating Transfers In

Operating transfers include transfers from the Courthouse and Criminal Justice Construction funds of \$4.1 million to finance debt service on the Foothill Law and Justice Center, and \$15.0 million of tobacco settlement funds to provide funding for debt service on the Arrowhead Regional Medical Center.



Countywide discretionary revenues are allocated to various county departments as local cost. The pie chart below shows what percentage of the local cost is allocated to each of the groups.



The schedule on the following pages shows a comparison of prior year local cost and current year local cost by department. This schedule also includes appropriation and revenue, including operating transfers, which are mechanisms to move financing between the various county budget units. Operating transfers are presented in the following chart because the intended purpose is to provide a complete picture of the department's appropriation and revenue. Operating transfers are excluded from the countywide appropriation and revenue summaries presented in the County Budget Summary section, as their inclusion would overstate countywide appropriation and revenue on a consolidated basis.



Department Title	2006-07 Final Budget:			2007-08 Proposed Budget:			Change Between 2006-07 Final & 2007-08 Proposed:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
BOARD OF SUPERVISORS (ALL DISTRICTS)	6,107,437	-	6,107,437	6,607,236	-	6,607,236	499,799	-	499,799
BOARD OF SUPERVISORS - LEGISLATION	480,950	-	480,950	894,675	-	894,675	413,725	-	413,725
CLERK OF THE BOARD	1,288,039	101,209	1,186,830	1,473,105	135,287	1,337,818	185,066	34,078	150,988
COUNTY ADMINISTRATIVE OFFICE	4,265,651	-	4,265,651	4,888,487	-	4,888,487	622,836	-	622,836
COUNTY ADMINISTRATIVE OFFICE - FRANCHISE ADMIN	295,845	-	295,845	304,387	-	304,387	8,542	-	8,542
COUNTY ADMINISTRATIVE OFFICE - LITIGATION	388,681	-	388,681	388,681	-	388,681	-	-	-
COUNTY ADMINISTRATIVE OFFICE - JOINT POWERS LEASES	21,137,293	-	21,137,293	20,612,356	-	20,612,356	(524,937)	-	(524,937)
COUNTY ADMINISTRATIVE OFFICE - HEALTH ADMIN	157,188,824	142,188,824	15,000,000	159,460,336	144,460,336	15,000,000	2,271,512	2,271,512	-
COUNTY COUNSEL	10,640,844	6,051,944	4,588,900	9,431,186	4,454,209	4,976,977	(1,209,658)	(1,597,735)	388,077
HUMAN RESOURCES	7,010,040	302,500	6,707,540	7,184,690	373,794	6,810,896	174,650	71,294	103,356
HUMAN RESOURCES-EMPLOYEE HEALTH AND WELLNESS	972,404	635,404	337,000	1,048,542	732,542	316,000	76,138	97,138	(21,000)
HUMAN RESOURCES-UNEMPLOYMENT INSURANCE	4,000,000	-	4,000,000	4,000,500	-	4,000,500	500	-	500
INFORMATION SERVICES-APPLICATIONS DEVELOPMENT	13,595,036	4,832,240	8,762,796	16,522,875	4,693,984	11,828,891	2,927,839	(138,256)	3,066,095
PURCHASING	1,235,858	35,000	1,200,858	1,302,167	50,000	1,252,167	66,309	15,000	51,309
BEHAVIORAL HEALTH	164,822,242	162,979,489	1,842,753	178,518,273	176,675,520	1,842,753	13,696,031	13,696,031	-
BEHAVIORAL HEALTH - ALCOHOL AND DRUG SERVICES	19,782,871	19,633,413	149,458	22,108,176	21,958,718	149,458	2,325,305	2,325,305	-
PUBLIC HEALTH	81,277,158	78,976,899	2,300,259	86,269,539	81,902,587	4,366,952	4,992,381	2,925,688	2,066,693
PUBLIC HEALTH - CALIFORNIA CHILDREN'S SERVICES	17,604,866	14,251,621	3,353,245	19,246,486	15,262,299	3,984,187	1,641,620	1,010,678	630,942
PUBLIC HEALTH - INDIGENT AMBULANCE	472,501	-	472,501	472,501	-	472,501	-	-	-
LOCAL AGENCY FORMATION COMMISSION	231,000	-	231,000	338,215	-	338,215	107,215	-	107,215
COUNTY SCHOOLS	2,918,131	-	2,918,131	4,308,605	-	4,308,605	1,390,474	-	1,390,474
ADMIN/EXECUTIVE GROUP SUBTOTAL:	515,715,671	429,988,543	85,727,128	545,381,018	450,699,276	94,681,742	29,665,347	20,710,733	8,954,614
ECONOMIC DEVELOPMENT	7,884,668	2,000	7,882,668	5,047,450	54,000	4,993,450	(2,837,218)	52,000	(2,889,218)
ECONOMIC DEVELOPMENT AGENCY SUBTOTAL:	7,884,668	2,000	7,882,668	5,047,450	54,000	4,993,450	(2,837,218)	52,000	(2,889,218)
ASSESSOR	17,559,215	820,000	16,739,215	17,837,581	985,000	16,852,581	278,366	165,000	113,366
AUDITOR-CONTROLLER/RECORDER	18,246,993	5,614,812	12,632,181	19,333,051	6,102,260	13,230,791	1,086,058	487,448	598,610
TREASURER-TAX COLLECTOR/PUBLIC ADMINISTRATOR	19,863,932	13,022,442	6,841,490	21,630,694	14,189,059	7,441,635	1,766,762	1,166,617	600,145
FISCAL GROUP SUBTOTAL:	55,670,140	19,457,254	36,212,886	58,801,326	21,276,319	37,525,007	3,131,186	1,819,065	1,312,121
AGING AND ADULT SERVICES	10,602,940	10,602,940	-	11,317,320	10,115,916	1,201,404	714,380	(487,024)	1,201,404
AGING AND ADULT SERVICES - PUBLIC GUARDIAN	1,070,683	342,000	728,683	1,124,837	343,018	781,819	54,154	1,018	53,136
CHILD SUPPORT SERVICES	39,797,347	39,797,347	-	39,748,491	39,748,491	-	(48,856)	(48,856)	-
HUMAN SERVICES - ADMINISTRATIVE CLAIM	344,305,647	322,009,254	22,296,393	359,032,720	335,631,006	23,401,714	14,727,073	13,621,752	1,105,321
CHILD ABUSE /DOMESTIC VIOLENCE	1,906,812	1,906,812	-	1,970,307	1,970,307	-	63,495	63,495	-
ENTITLEMENT PAYMENTS (CHILD CARE)	85,905,228	85,905,228	-	85,905,228	85,905,228	-	-	-	-
OUT OF HOME CHILDCARE	574,056	-	574,056	777,722	-	777,722	203,666	-	203,666
AID TO ADOPTIVE CHILDREN	34,457,874	32,678,455	1,779,419	39,467,626	37,580,473	1,887,153	5,009,752	4,902,018	107,734
AFDC-FOSTER CARE	97,376,873	82,654,830	14,722,043	85,012,850	70,736,762	14,276,088	(12,364,023)	(11,918,068)	(445,955)
REFUGEE CASH ASSISTANCE	100,000	100,000	-	100,000	100,000	-	-	-	-
CASH ASSISTANCE - IMMIGRANTS	822,878	822,878	-	611,254	611,254	-	(211,624)	(211,624)	-
CALWORKS-ALL OTHER FAMILIES	197,073,867	192,702,019	4,371,848	191,880,000	187,770,991	4,109,009	(5,193,867)	(4,931,028)	(262,839)
KIN-GAP PROGRAM	4,575,538	3,868,452	707,086	6,984,009	5,896,566	1,087,443	2,408,471	2,028,114	380,357
SERIOUSLY EMOTIONALLY DISTURBED	4,761,913	3,781,511	980,402	4,761,913	3,781,511	980,402	-	-	-
CALWORKS-2 PARENT FAMILIES	14,215,939	13,881,109	334,830	15,674,688	15,322,821	351,867	1,458,749	1,441,712	17,037
AID TO INDIGENTS	1,181,027	341,471	839,556	1,181,027	341,471	839,556	-	-	-
VETERAN'S AFFAIRS	1,375,189	327,500	1,047,689	1,443,936	336,500	1,107,436	68,747	9,000	59,747
HUMAN SERVICES SUBTOTAL:	840,103,811	791,721,806	48,382,005	846,993,928	796,192,315	50,801,613	6,890,117	4,470,509	2,419,608



Department Title	2006-07 Final Budget:			2007-08 Proposed Budget:			Change Between 2006-07 Final & 2007-08 Proposed:		
	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost	Appropriation	Revenue	Local Cost
COUNTY TRIAL COURTS - DRUG COURT PROGRAMS	299,433	299,433	-	374,691	374,691	-	75,258	75,258	-
COUNTY TRIAL COURTS - GRAND JURY	333,956	-	333,956	343,249	-	343,249	9,293	-	9,293
COUNTY TRIAL COURTS - INDIGENT DEFENSE	8,979,100	-	8,979,100	9,158,413	-	9,158,413	179,313	-	179,313
COUNTY TRIAL COURTS - COURT FAC/JUDICIAL BENEFITS	1,637,427	-	1,637,427	1,992,692	-	1,992,692	355,265	-	355,265
COUNTY TRIAL COURTS - COURT FACILITIES PAYMENTS	57,300	-	57,300	57,300	-	57,300	-	-	-
COUNTY TRIAL COURTS - MAINTENANCE OF EFFORT	31,782,490	21,156,000	10,626,490	32,550,674	21,924,184	10,626,490	768,184	768,184	-
DISTRICT ATTORNEY - CRIMINAL	51,315,220	32,481,610	18,833,610	58,111,614	35,678,473	22,433,141	6,796,394	3,196,863	3,599,531
DISTRICT ATTORNEY - CHILD ABDUCTION AND RECOVERY	850,475	850,475	-	876,549	876,549	-	26,074	26,074	-
LAW & JUSTICE GROUP ADMINISTRATION	147,302	5,000	142,302	226,399	78,503	147,896	79,097	73,503	5,594
PROBATION-ADMIN, CORRECTIONS & DETENTION	105,046,634	45,428,918	59,617,716	113,688,145	49,355,959	64,332,186	8,641,511	3,927,041	4,714,470
PROBATION-COURT ORDERED PLACEMENTS	3,808,330	-	3,808,330	3,808,330	-	3,808,330	-	-	-
PUBLIC DEFENDER	28,862,282	1,600,000	27,262,282	31,639,820	1,400,000	30,239,820	2,777,538	(200,000)	2,977,538
SHERIFF	376,188,213	242,597,731	133,590,482	396,147,041	263,230,644	132,916,397	19,958,828	20,632,913	(674,085)
LAW AND JUSTICE GROUP SUBTOTAL:	609,308,162	344,419,167	264,888,995	648,974,917	372,919,003	276,055,914	39,666,755	28,499,836	11,166,919
PUBLIC AND SUPPORT SERVICES GROUP ADMIN	1,925,919	-	1,925,919	1,859,387	-	1,859,387	(66,532)	-	(66,532)
AGRICULTURE, WEIGHTS AND MEASURES	6,198,976	3,855,178	2,343,798	6,497,864	3,921,170	2,576,694	298,888	65,992	232,896
AIRPORTS	2,880,410	2,880,410	-	2,798,296	2,798,296	-	(82,114)	(82,114)	-
ARCHITECTURE AND ENGINEERING	585,320	-	585,320	585,320	-	585,320	-	-	-
COUNTY MUSEUM	4,099,202	1,979,149	2,120,053	3,900,182	1,753,400	2,146,782	(199,020)	(225,749)	26,729
FACILITIES MANAGEMENT	16,197,204	6,900,616	9,296,588	14,804,146	4,830,071	9,974,075	(1,393,058)	(2,070,545)	677,487
FACILITIES MANAGEMENT - UTILITIES	16,654,565	246,355	16,408,210	17,544,618	258,043	17,286,575	890,053	11,688	878,365
LAND USE SERVICES - ADMINISTRATION	-	-	-	-	-	-	-	-	-
LAND USE SERVICES - CURRENT PLANNING	3,253,190	3,253,190	-	3,406,036	3,406,036	-	152,846	152,846	-
LAND USE SERVICES - ADVANCED PLANNING	3,963,886	2,287,138	1,676,748	4,064,230	2,328,829	1,735,401	100,344	41,691	58,653
LAND USE SERVICES - BUILDING AND SAFETY	9,870,995	9,870,995	-	10,218,677	10,218,677	-	347,682	347,682	-
LAND USE SERVICES - CODE ENFORCEMENT	4,519,923	767,530	3,752,393	4,406,959	710,300	3,696,659	(112,964)	(57,230)	(55,734)
LAND USE SERVICES - FIRE HAZARD ABATEMENT	2,617,148	2,617,148	-	2,867,674	2,867,674	-	250,526	250,526	-
PUBLIC WORKS-SURVEYOR	4,432,992	4,233,482	199,510	5,400,409	5,132,271	268,138	967,417	898,789	68,628
REAL ESTATE SERVICES	2,514,897	1,510,344	1,004,553	2,634,078	1,542,667	1,091,411	119,181	32,323	86,858
REAL ESTATE SERVICES - RENTS AND LEASES	109,290	109,290	-	101,179	101,179	-	(8,111)	(8,111)	-
REGIONAL PARKS	8,482,731	6,603,530	1,879,201	9,156,789	6,729,800	2,426,989	674,058	126,270	547,788
REGISTRAR OF VOTERS	13,163,095	9,462,107	3,700,988	9,424,117	5,976,450	3,447,667	(3,738,978)	(3,485,657)	(253,321)
PUBLIC AND SUPPORT SVCS GRP SUBTOTAL:	101,469,743	56,576,462	44,893,281	99,669,961	52,574,863	47,095,098	(1,799,782)	(4,001,599)	2,201,817
GENERAL FUND DEPARTMENT SUBTOTAL:	2,130,152,195	1,642,165,232	487,986,963	2,204,868,600	1,693,715,776	511,152,824	74,716,405	51,550,544	23,165,861
CONTINGENCIES	59,124,138	-	59,124,138	79,212,210	-	79,212,210	20,088,072	-	20,088,072
RESERVE CONTRIBUTIONS	35,452,753	-	35,452,753	40,696,689	-	40,696,689	5,243,936	-	5,243,936
FINANCIAL ADMINISTRATION APPROPRIATION	7,500,000	7,500,000	-	7,500,000	7,500,000	-	-	-	-
FINANCIAL ADMINISTRATION REIMBURSEMENTS	(583,586)	(583,586)	-	-	-	-	583,586	583,586	-
OPERATING TRANSFERS OUT	81,458,956	-	81,458,956	33,001,106	-	33,001,106	(48,457,850)	-	(48,457,850)
TOTAL COUNTYWIDE ALLOCATED COSTS:	182,952,261	6,916,414	176,035,847	160,410,005	7,500,000	152,910,005	(22,542,256)	583,586	(23,125,842)
GRAND TOTAL:	2,313,104,456	1,649,081,646	664,022,810	2,365,278,605	1,701,215,776	664,062,829	52,174,149	52,134,130	40,019

NOTE: Total countywide allocated costs on this schedule includes appropriation and reimbursements for Financial Administration. This appropriation is offset in the countywide discretionary revenue schedule.

CONTINGENCIES

The County Contingencies includes the following elements:

Contingencies

Mandatory Contingencies

Board Policy requires the county to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations, which could not have reasonably been anticipated at the time the budget was prepared. Funding is targeted at 1.5% of locally funded appropriation.

Uncertainties

Any unallocated financing available from current year sources (both ongoing and one-time) that has not been set-aside and any unallocated fund balance carried over from the prior year, is budgeted in the contingencies for uncertainties. Final budget action includes a provision that allocates any difference between estimated and final fund balance to this contingencies account.

Ongoing Set-Asides Contingencies

The county budget process differentiates between ongoing and one-time revenue sources. Ongoing set-asides represent ongoing sources of financing that have been targeted for future ongoing program needs.

Contingencies - Priority District and Program Needs

An annual base allocation of \$2,500,000 is set aside for priority district and program needs. Any amounts unspent in this contingencies account at the end of a fiscal year rolls forward into the next fiscal year.

	Contingencies			
	2006-07	2006-07	2007-08	2007-08
		Mid-Year Approved		
	Final Budget	Approved Contributions/ (Uses)	Recommended Additional Contributions	Proposed Budget
Contingencies				
Mandatory Contingencies (1.5% of Locally Funded Appropriation)	7,868,404		714,220	8,582,624
Uncertainties	16,199,923	(604,502)	17,634,165	33,229,586
Ongoing Set-Asides Contingencies				
Future Retirement Costs	7,900,000		-	7,900,000
Jail Expansion (Formerly Future Financing)	2,400,000		4,600,000	7,000,000
Future Space Needs	20,000,000			20,000,000
Contingencies - Priority District and Program Needs	4,755,811	(4,755,811)	2,500,000	2,500,000
Total Contingencies	59,124,138	(5,360,313)	25,448,385	79,212,210



2006-07 Changes to Contingencies for Uncertainties

For 2006-07 mid-year Board actions to date have authorized the use of approximately \$0.6 million of the Contingencies for Uncertainties. These allocations include:

- \$0.3 million in one-time funding for sheriff saturation patrol in the City of San Bernardino.
- \$0.2 million in one-time funding to provide additional general fund support to California Children Services.
- \$82,000 in one-time funding for legal services related to the update of the General Plan.
- \$60,000 in one-time funding for illegal dumping surveillance equipment.
- \$15,000 in one-time funding for an illegal dumping reward program.
- \$10,000 in ongoing funding for an illegal dumping reward program.
- \$1,779 in ongoing funding for operation of streaming multimedia and hosting services.

2007-08 Mandatory Contingencies

The base allocation to the mandatory contingency budget of \$8,582,624 is established pursuant to Board policy, based on projected locally funded appropriation of \$572.2 million.

2007-08 Ongoing Set-Asides Contingencies

As seen in the Reserves section, the county has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. Beginning in 2005-06 the county also began to set-aside portions of ongoing funding for future use. In the 2007-08 proposed budget the county has set aside ongoing revenue sources to finance future ongoing expenditures in three different areas: retirement, jail expansion and future space needs.

➤ Future Retirement Costs Ongoing Set-Aside:

For the past few years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns. The Board has set aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date.

➤ Jail Expansion (Formerly Future Financing Needs) Ongoing Set-Aside:

In 2005-06, the Board set aside \$7.0 million of ongoing money to address the future needs of the County's growing population. In 2006-07, the Board allocated this set-aside to a specific use, increased jail space. The use of \$4.6 million of this ongoing set-aside was approved in 2006-07 to fund the design costs for the Adelanto Detention Center Expansion Project. In the 2007-08 proposed budget, this set-aside is maintained at the \$7.0 million level.

➤ Future Space Needs Ongoing Set-Aside:

Beginning in 2006-07, the Board set-aside \$20.0 million to address future space needs. This is based on a building analysis completed by staff. The space needs of the county continue to grow based on expansion of the area and the programs that service the county's growing population.



RESERVES

The county has a number of reserves (designations) that have been established over the years. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general purpose reserve are funds held to protect the County from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the County. On January 6, 1998, the Board of Supervisors adopted a county policy to provide guidelines and goals for reserve levels. That policy calls for the county's general purpose reserve to equal 10% of locally funded appropriation. The Board of Supervisors also established special purpose reserves to temporarily help meet future needs.

Total Reserves

	6/30/06 Ending Balance	Approved 2006-07		6/30/07 Estimated Balance	Proposed 2007-08		6/30/08 Estimated Balance
		Contributions	Uses		Contributions	Uses	
General Purpose Reserve	41,736,865	10,719,160		52,456,025	4,761,467		57,217,492
Specific Purpose Reserves							
Medical Center Debt Service	32,074,905			32,074,905			32,074,905
Future Space Needs	-	20,000,000		20,000,000	20,000,000		40,000,000
Retirement	14,900,000	15,800,000		30,700,000	7,900,000		38,600,000
Teeter	17,747,201			17,747,201			17,747,201
Jail Expansion (Formerly Future Financing)	7,000,000	9,400,000		16,400,000	7,000,000		23,400,000
Juvenile Maximum Security	5,692,986	3,700,000		9,392,986	1,900,000		11,292,986
Capital Projects	4,000,000			4,000,000			4,000,000
Museum's Hall of Paleontology	3,703,030		(3,703,030)	-			-
Business Process Improvement	2,510,606	1,105,550	(3,051,378)	564,778	2,435,222		3,000,000
Insurance	3,000,000			3,000,000			3,000,000
Restitution	1,865,025			1,865,025			1,865,025
Justice Facilities	637,153		(517,837)	119,316			119,316
Electronic Voting	500,000	2,278,043	(2,278,043)	500,000			500,000
Moonridge Zoo	-	2,750,000		2,750,000			2,750,000
L&J SWBPI	1,723,987		(1,723,987)	-			-
Equity Pool	1,507,038		(1,507,038)	-			-
Unified Property Tax System	-			-	1,300,000		1,300,000
Total Specific Purpose	96,861,931	55,033,593	(12,781,313)	139,114,211	40,535,222	-	179,649,433
Total Reserves	138,598,796			191,570,236			236,866,925



2006-07 Approved Contributions

- \$10.7 million to the General Purpose Reserve based on the 2006-07 final budget for countywide discretionary revenue which finances locally funded appropriation.
- \$20.0 million planned contribution to the Future Space Needs Reserve representing the 2006-07 ongoing set-aside that is projected to remain unspent at the end of the current fiscal year.
- \$15.8 million to the Retirement Reserve, \$7.9 million approved in the 2006-07 final budget, representing the 2005-06 ongoing set-aside that remained unspent at the end of that fiscal year, and a \$7.9 million planned contribution representing the 2006-07 ongoing set-aside that is projected to remain unspent at the end of the current fiscal year.
- \$9.4 million to the Jail Expansion Reserve, \$7.0 million approved in the 2006-07 final budget, representing the 2005-06 ongoing set-aside that remained unspent at the end of that fiscal year, and a \$2.4 million planned contribution representing the 2006-07 ongoing set-aside that is projected to remain unspent at the end of the current fiscal year.
- \$3.7 million to the Juvenile Maximum Security Reserve from Probation Department savings in 2005-06.
- \$1.1 million to the Business Process Improvement Reserve to return it to its original balance after funding 2005-06 uses.
- \$2.3 million to the Electronic Voting System Reserve representing unspent Help America Vote Act (HAVA) monies that were received by the Registrar of Voters in 2006-07.
- \$2.8 million to the Moonridge Zoo Reserve.

2006-07 Approved Uses

- \$3.7 million from the Museum Paleontology Reserve for construction of the Hall of Geological Wonders at the County Museum in Redlands.
- \$3.1 million from the Business Process Improvement Reserve. Final budget reserve allocations were \$1.9 million to purchase a Countywide Forensic Science Laboratory Information Management System (LIMS), \$0.1 million to deploy kiosk-reporting systems within the County that will enable low-risk offenders to remotely report to their probation officers, \$0.2 million to the County Library to convert the Apple Valley and Adelanto facilities from barcode technology to radio frequency identification, and a reallocation of \$0.6 million of allocated reserve monies unspent by the Assessor's office in 2005-06. This allocation is for the purpose of creating a system for imaging building records. Mid-year reserve allocations of \$0.2 million include the purchase of a Netfile management system, an IT operational support system, hardware and software for streaming media and hosting services, and hardware, software and equipment for the Computer Aided Facilities Management (CAFM) project.
- \$0.5 million from the Justice Facilities Reserve for the morgue expansion project, an automated medication dispensing system and partial funding of the replacement of a commercial dishwasher.
- \$2.3 million from the Electronic Voting Reserve to remodel the Registrar of Voters offices.
- \$1.7 million from the Law and Justice Southwest Border Patrol Initiative to transfer the remaining balance to a special revenue fund.
- \$1.5 million from the Equity Pool Reserve to assist in funding the 2006-07 costs of approved equity adjustments.



2007-08 Proposed Contributions and Uses

For 2007-08 the general purpose reserve is increased by \$4.8 million to conform to Board policy. This increase is based on projected locally funded appropriation of \$572.2 million and will bring the balance of the general purpose reserve to \$57.2 million. The reserve for Future Space Needs is increased by \$20.0 million representing the ongoing set-aside amount that is expected to remain unspent at the end of 2007-08. The reserve for Retirement is increased by \$7.9 million representing the ongoing set-aside amount that is expected to remain unspent at the end of 2007-08. The Jail Expansion Reserve is increased by the ongoing set aside of \$7.0 million that is expected to remain unspent at the end of 2007-08. The Juvenile Maximum Security Reserve is increased by \$1.9 million, funded by anticipated savings from Probation's 2006-07 department budget. The Business Process Improvement Reserve is increased by \$2.4 million to return it to its original amount after funding 2006-07 uses. \$1.3 million of anticipated 2006-07 savings from departments in the fiscal group are recommended to be used for the establishment of a Unified Property Tax System reserve.

The chart below shows recent history of the County Reserve levels.

	Year End Actual Balance					Estimated	Proposed
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total General Purpose Reserve	30.2	31.9	34.8	37.2	41.7	52.5	57.2
Specific Purpose Reserves							
Medical Center Debt Service	32.0	32.1	32.1	32.1	32.1	32.1	32.1
Future Space Needs					-	20.0	40.0
Retirement	1.5	7.0	7.0	7.0	14.9	30.7	38.6
Teeter	19.3	19.3	19.3	19.3	17.7	17.7	17.7
Jail Expansion (formerly Future Financing)					7.0	16.4	23.4
Juvenile Maximum Security	1.5	1.5	1.5	1.5	5.7	9.4	11.3
Capital Projects Reserve		4.0	4.0	4.0	4.0	4.0	4.0
Museum's Hall of Paleontology			0.9	1.7	3.7	-	-
Business Process Improvement				3.0	2.5	0.6	3.0
Insurance		5.0	3.0	3.0	3.0	3.0	3.0
Restitution	8.9	2.1	2.1	1.6	1.9	1.9	1.9
Justice Facilities	5.0	4.9	3.7	1.3	0.6	0.1	0.1
Electronic Voting System		5.7	-	0.5	0.5	0.5	0.5
Moonridge Zoo						2.8	2.8
L&J Southwest Border Prosecution Initiative			3.4	1.9	1.7	-	-
Equity Pool		1.9	4.4	3.5	1.5	-	-
Bark Beetle		-	1.8	1.7	-	-	-
Unified Property Tax System							1.3
Total Specific Purpose Reserves	(1) 68.2	83.4	83.1	82.0	96.9	139.1	179.6
Total Reserves	(1) 98.4	115.3	118.0	119.2	138.6	191.6	236.9

(1) Totals may not add due to rounding

